*Department of Finance*

# News Release

Immediate release

Ottawa, February 2, 2007
2007-008

## Tobacco Manufacturers' Surtax Relief Proposed for Tobacco Processors

The Honourable Jim Flaherty, Minister of Finance, today tabled in the House of Commons draft legislation to relieve processors of leaf tobacco that are not related to any tobacco manufacturers from paying the Tobacco Manufacturers' Surtax.

The proposed measure will apply to the 2007 and subsequent taxation years.

"Taxation of tobacco products remains a key element of government efforts to control consumption, particularly among our youth," said Minister Flaherty. "However, given that leaf tobacco processors do not manufacture consumable tobacco products, they should not be subject to the manufacturers' surtax."

Leaf tobacco processors generally carry out the activities of sorting, grading, drying and packing leaf tobacco grown in the tobacco-growing regions of Canada.

Interested parties should send their comments on the draft legislation by February 16, 2007, to:

Tax Legislation Division
Tax Policy Branch
Department of Finance
L'Esplanade Laurier, 140 O'Connor Street
Ottawa, Ontario
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# DRAFT LEGISLATION TO AMEND THE INCOME TAX ACT (TOBACCO MANUFACTURERS' SURTAX)

Definitions

**1. (1) The definition "tobacco manufacturing" in subsection 182(2) of the *Income Tax Act* is replaced by the following:**

"tobacco manufacturing" « *fabrication du tabac* »

"tobacco manufacturing" means any activity, other than an exempt activity, relating to the manufacture or processing in Canada of tobacco or tobacco products in or into any form that is, or would after any further activity become, suitable for smoking;

**(2) Subsection 182(2) of the Act is amended by adding the following in alphabetical order:**

"exempt activity" « *activité exclue* »

"exempt activity", of a particular corporation, means

(*a*) farming; or

(*b*) processing leaf tobacco, if

(i) that processing is done by, and is the principal business of, the particular corporation,

(ii) the particular corporation does not manufacture any tobacco product, and

(iii) the particular corporation is not related to any other corporation that carries on tobacco manufacturing (determined, in respect of the other corporation, as if the particular corporation did not exist and the definition "tobacco manufacturing" were read without reference to the words "in Canada");

**(3) Subsections (1) and (2) apply to taxation years that end after 2006.**